



Mr. George Yiankos
Director, Gas Division
Department of Telecommunications and Energy
One South Station
Boston, Massachusetts 02110

September 15, 2006

RE: D.T.E 06-GAF-P5
KeySpan Energy Delivery Combined 2006-07 Peak Gas Adjustment Factor
KeySpan Energy Delivery Combined 2006-07 Peak Local Distribution Adjustment
Factor effective November 2006

Dear Ms. Cottrell:

KeySpan Energy Delivery New England (the "Company") hereby requests approval of its 2006-2007 Consolidated Peak Gas Adjustment Factors ("GAF") and Local Distribution Adjustment Factors ("LDAF"). This filing presents the consolidated GAF and LDAF for Boston Gas Company ("Boston Gas"), Essex Gas Company ("Essex"), and Colonial Gas Company ("Colonial"). With the Department's approval, these factors will become effective for the period November 1, 2006 through April 30, 2007. The requested billing factors include the reconciliation amounts from the Company's 2005-06 Peak Reconciliation filing made today under separate cover.

The Peak GAF and LDAF applicable to each of the new rate tariffs is summarized below.

KeySpan Rate Tariff	Former Company	Unit	Proposed Peak GAF	Proposed Peak LDAF
Tariff 101-104	Boston- Residential	\$/therm	\$1.3702	\$0.0586
Tariff 105-107, 109-111	Boston- G-40 & G-50s series	\$/therm	\$1.3702	\$0.0507
Tariff 108 & 112	Boston G-44 & G-54	\$/MDCQ therms	\$2.6988	\$0.0507
Tariff 108 & 112	Boston G-44 & G-54	\$/therm	\$1.1191	\$0.0507
Tariff 201-206	Essex – Residential	\$/therm	\$1.2939	\$0.0187
Tariff 207-213	Essex- C&I	\$/therm	\$1.2939	\$0.0129
Tariff 301-304	Colonial Lowell Residential	\$/Ccf	\$1.4204	\$0.0225
Tariff 304-313	Colonial Lowell C&I	\$/Ccf	\$1.4204	\$0.0273
Tariff 401-405	Colonial Cape Residential	\$/Ccf	\$1.3930	\$0.0167
Tariff 406-414	Colonial Cape C&I	\$/Ccf	\$1.3930	\$0.0225

To facilitate the Department's review, the Company has included a comparison of the proposed 2006-07 Consolidated Peak GAFs and LDAFs with the average factors approved by the Department for the 2005-06 Peak period for each of the Company's three service areas (see Attachment A).

▪ **GAF**

The calculation of the proposed 2006-07 Peak GAF and LDAF factors submitted today is consistent with the consolidated GAF and LDAF methodology approved by the Department in KeySpan Energy Delivery, D.T.E. 04-62 (2004). Specifically the Company has maintained the current treatment of gas acquisition costs and calculated a separate gas acquisition and planning factor for each company in accordance with its historical methodology (see Page 9, Lines 43-46). In addition, in both the GAF and LDAF filings, the Company has calculated separate working capital allowance factors for Boston Gas, Colonial and Essex (see Page 12 of the GAF filing and Page 6 of the LDAF filing).

In this filing, the Company calculated the working capital allowance based on the number of days lag derived from a separate lead lag study for the period November 2005 through April 2006 for Boston Gas, Essex Gas, and Colonial. Please note, however, that the working capital allowance calculated in the GAF filing represents a projection of working capital costs. In the Company's reconciliation filing, the Company will calculate the actual working capital allowance based on actual gas costs and actual number of days lag derived from an updated lead lag study for each individual company.

The 2006-07 consolidated Peak GAF reflects the gas futures prices listed in the New York Mercantile Exchange ("NYMEX") as of September 12, 2006. In compliance with the Department's order in KeySpan Energy Delivery New England, D.T.E. 03-85 (2003), the Company is submitting Page 25 as part of this filing, reporting the contracted volumes, indices, prices and delivery dates for gas-supply purchases made under the approved price-volatility mitigation plan. The Company will continue to monitor the price of gas and will submit, if necessary, a revised GAF filing if there is a significant increase or decrease in the commodity prices paid by the Company to procure gas on behalf of customers.

Also, in this filing for approval of the 2006-07 Peak GAF, the Company has incorporated the proposed recovery of the 2005 gas-cost related bad-debt exogenous cost adjustment consistent with the Department's directives in Boston Gas Company, D.T.E. 05-66 (2005) and Bay State Gas Company, D.T.E. 05-27 (2005). Specifically, the Company has included gas-cost related bad-debt expense of \$17,126,226 million for the 2005 calendar year in accordance with the Department's findings in D.T.E. 05-66. As set forth in the cover letter accompanying the Company's 3rd Annual PBR Compliance Filing, the proposed exogenous adjustment fully comports with the Department's standard for recovery as established in D.T.E. 05-66.

Moreover, the Company has calculated its projection of 2006-07 gas-cost related bad-debt based on the Department's directives in D.T.E. 05-27, at 190, which means that the Company has projected gas-cost related bad-debt expense by multiplying total revenues projected for the

period November 2006 through April 2007 by the bad-debt ratio of 2.2 percent to derive total projected bad-debt expense for that period. The Company then derived the total projected gas-cost related bad-debt expense for the 2006-07 peak period by multiplying this amount by the gas cost percentage of 63.8 percent. The ratio of 63.8 percent represents the actual ratio of gas-cost related writeoffs to total writeoffs in 2005. For Colonial, the Company recovers 52 percent and 49 percent of total net write-offs through the GAF for the Lowell and Cape divisions, respectively. Essex does not recover any bad debt expense through its GAF.

▪ **LDAF**

On April 30, 2002, the Company submitted to the Department its Demand Side Management/Market Transformation Plan for 2002-2007. The Department approved the plan on June 6, 2002 in KeySpan Energy Delivery New England, D.T.E. 02-31(2002). The report included in that docket detailed the Company's plan for a combined Boston Gas, Colonial Gas and Essex Gas energy efficiency program for the period May 1, 2002 through April 30, 2007. The DSM budget included in the 2006-2007 LDAF filing is consistent with the budget presented to the Department on April 30, 2002¹.

On August 1, 2006, the Company submitted to the Department its calculation of the shareholder incentive associated with its DSM performance for the period May 1, 2005 through April 30, 2006.² The Company's August 1, 2006 filing included a request to deviate from the Department's incentive calculation guidelines that were approved in Energy Efficiency Programs, D.P.U. 98-100. The Company made a similar request to deviate from the Department's incentive calculation in August 2003 and August 2005. In 2003, the Department directed the Company to include in its LDAF the incentive calculated using the Department's guidelines until such a time that the Department approves any deviation. In accordance with that directive, the Company has included in the 2006-07 LDAF filing, the pre-tax incentives of \$806,699 for Program Year 4 calculated using the three-month treasury bill rate pursuant to the Guidelines established in D.T.E. 98-100. If the Department approves the Company's request to use the 5 percent fixed rate, then the Company would adjust a subsequent Peak Period LDAF filing based on the difference between the two methodologies.

The Company has included in its LDAF the recovery of pension and PBOP expense as directed by the Department in Boston Gas Company, D.T.E. 03-40, and Boston Gas Company, D.T.E. 03-40 A & B (see LDAF filing at pages 14 and 15). The Company does not recover any pension or PBOP expense through the LDAF for Essex and Colonial customers.

The Company has also included as part of its Residential Assistance Adjustment Factor it projected costs associated with its Arrearage Management Program as directed in Docket D.T.E. 05-86.

¹ In KeySpan Energy Delivery New England, D.T.E. 03-86, the Department approved a \$500,000 increase to the low income portion of the budget which is reflected in this filing.

² The matter was docketed by the Department as KeySpan Energy Delivery New England, D.T.E. 03-86.

The Company has included the recovery of a proposed exogenous cost adjustment related to its compliance with G.L. c. 164, 116B. As set forth in the cover letter accompanying the Company's 3rd Annual PBR Compliance Filing, the proposed exogenous adjustment of \$1,266,737 fully comports with the Department's standard for recovery as established in D.T.E. 05-66.

The Company has included monthly bill impacts for all residential and commercial rate classes comparing the proposed consolidated GAFs and LDAFs with the average GAFs and LDAFs in effect from November 2005 through April 2006. For Boston Gas, the bill impacts also reflect the base rates submitted as part of the Company's 3rd annual Performance Base Rate filing pursuant to Boston Gas Company, D.T.E. 03-40 (2003), as compared to the base rates in effect in November 2005 (see Attachments B).

Please do not hesitate to call if you have any questions. I can be reached at (617) 466-5407.

Sincerely,

Ann E. Leary
Manager, Rates

cc: J. Rogers, Office of the Attorney General
R. Sydney, Division of Energy Resources

ATTACHMENT A

ATTACHMENT B

ATTACHMENT C

ATTACHMENT E